

PROJECT SUMMARY

Overview

The Texas Water Development Board (TWDB) has processes in place to ensure investments are accurately reported, and that compliance with the Public Funds Investment Act (Act), Texas Government Code §2256.005, and TWDB rules is achieved.

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Summary of Significant Results

TWDB's \$890 million investments were accurately reported in the fiscal year 2011 financial statements and accompanying notes, in accordance with the Comptroller's Annual Financial Reporting Requirements.

TWDB's Investment Policy is in compliance with the Act.

Investment activities for fiscal years 2010 and 2011 were in compliance with TWDB's Investment Policy.

The required quarterly written investment reports that were presented to the Board were determined to be accurate, timely, and in compliance with the Act.

TWDB's investment management and internal controls are adequate to ensure investment funds are protected.

DETAILED OBSERVATIONS

TWDB's Investment Policy is in compliance with the Act.

TWDB's Investment Policy includes all the elements required by the Act. The Policy emphasizes safety of principal and liquidity and the need to match cash flow needs for financial programs and debt service payments. These are accomplished with the purchase of securities of less than 360 days' maturity that are backed by the full faith and credit of the U. S. government and U. S. government agencies in a ladder structure in the Texas State Treasury or the Texas Treasury Safekeeping Trust Company (Trust). The Board has reviewed its investment policy and strategies at least annually, as required by the Act.

Quarterly written investment reports were accurate and timely.

The required quarterly written investment reports presented to the Board were determined to be accurate, timely, and prepared in accordance with the Act. TWDB's Internal Audit Division has reviewed these reports on an annual basis, with reports submitted to the Board and the State Auditor's Office.

TWDB Investment management processes include adequate internal controls.

The processes include segregation of duties between maintaining security information on fund type and purchase and maturity dates, maintaining investment book values and monitoring market values and credit ratings. These are performed by Debt and Portfolio Management, Accounting, and a contractor, the Trust, respectively.

BASIS OF REVIEW

Objective and Scope

The objective of this review was to determine the extent to which investment activities comply with the Act and TWDB's Investment Policy. In addition, the review was to determine the extent to which investment management processes ensure that information is reliable, and accurately presented in the financial statements and accompanying notes. Further, the review determined the extent to which TWDB investment goals and objectives are achieved and the extent to which funds are protected and properly managed. The review focused on activities from September 1, 2009 to August 31, 2011. Fieldwork was conducted from October through November, 2011.

Criteria

Our audit was based upon standards as set forth in the Public Funds Investment Act, TWDB's Investment Policy and other sound administrative practices. This audit was performed in compliance with the Institute of Internal Auditors' "International Standards for the Professional Practice of Internal Auditing."

Additionally, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The Debt and Portfolio Management (DPM) Division is responsible for the management of TWDB's investments. TWDB had an investment portfolio of approximately \$890 million at August 31, 2011. These investment resources represented the various funds and accounts maintained by the Board and the Texas Water Resources Finance Authority (TWRFA) in administering its financial assistance programs in compliance with bond, statutory, and contractual requirements. For this report Board denotes the governing body members, and TWDB signifies the Texas Water Development Board agency.

AUDIT TEAM INFORMATION

Contact Information

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DISTRIBUTION LIST

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Texas Water Development Board: Review of Investments

Texas Water Development Board		
Summary of Investments		
Investment Type	August 31, 2011 Book Value	August 31, 2011 Market Value
Equity Securities		
U.S. Common Stock		
Equity Mutual Funds		
Other Equity Securities (list)		
Total Equity Securities		
Other Investments		
Real Estate		
Private Equity		
Annuities		
Collective Endowment Funds		
Commodities		
Collectibles		
Other (list)		
Total Other Investments		
Debt Investments>1 year		
U.S. Government (SLGS)	4,167,400.00	4,167,400.00
U.S. Government Agency		
Mortgage Pass-Throughs		
CMOs:		
Interest Only Strips		
Principal Only Strips		
Inverse Floaters		
Stated Maturities longer than 10 years		
PFIA Compliant CMOs		
Other Asset-Backed Bonds		
Foreign Issued Obligations		
Municipal Obligations		

Texas Water Development Board: Review of Investments

Texas Water Development Board		
Summary of Investments, page 2		
Investment Type	August 31, 2011 Book Value	August 31, 2011 Market Value
Corporate Obligations:		
Highly Rated (AAA/AA)		
Investment Grade (A/BBB)		
NR/High Yield (<BBB)		
GICs		
Bond Mutual Funds		
Other (list)		
Total Debt Investments >1 year	4,167,400.00	4,167,400.00
Short Term Investments		
U.S. Government		
U.S. Government Agency	464,225,581.34	464,944,513.39
CDs/BAs		
A1/P1 Commercial Paper	19,998,500.00	19,998,500.00
Repurchase Agreements	194,588,150.95	194,588,150.96
TexPool		
Other Money Market Funds and Pools		
Bank Deposits		
Cash Held at State Treasury	*206,482,657.99	*206,482,657.99
Other (list)		
Total Short Term Investments	885,294,890.28	886,013,822.34
TOTAL INVESTMENTS	889,462,290.28	890,181,222.34
* Not under the purview of PFIA.		

Explanations of Asset Classes

A1/P1 Commercial Paper	Commercial paper rated A1, P1, or F1 (or higher). Lower rated commercial paper should be listed under "other" short-term investments.
Annuities	A type of investment sold by insurance companies. Includes fixed and variable annuities.
Bank Deposits	Money held in bank, savings bank, or credit union accounts.
Bond Mutual Funds	Funds that invest in debt securities with a variable net asset value per share.
CDs/BAs	Certificates of deposit with a maturity under one year and banker's acceptances.
CMO (Collateralized Mortgage Obligations)	Prohibited CMOs listed as noncompliant. (Institutions may hold noncompliant CMOs that were purchased prior to September 1, 1995.)
Cash Held at State Treasury	All balances held in the State Treasury or the Texas Treasury Safekeeping Trust Company.
Collectibles	Items such as art, stamps, coins, historic documents, and memorabilia.
Collective Endowment Funds	Long-term endowment funds managed by a third party that combines investments from multiple investors (the Common Fund and the Permanent Higher Education Fund are examples).
Commodities	Includes things such as oil and gas, timber land, and precious metals.
Corporate Obligations	All non-governmental debt issues classified by rating. For issues with split ratings, lower ratings are reported. Equivalent ratings from other rating agencies such as Fitch may be used.
Equity Mutual Funds	Mutual funds that invest in stocks. Includes balanced funds (which include a mix of stocks and bonds).
Equity Securities	Stocks.
Fair Market Value	The value based on Governmental Accounting Standards Board Statement 31 (GASB 31).
Foreign Issued Obligations	Securities that are issued outside of the U.S. by non-U.S. issuers (in U.S. dollars or foreign currency). Includes U.S. issued securities that are in foreign currencies.
GICs	Guaranteed investment contracts issued by insurance companies.
Highly Rated Corporate Issues	Issues rated AAA or AA by Standard & Poor's or Aaa or Aa by Moody's.
Investment Grade Corporate Issues	Issues rated A or BBB by Standard & Poor's or A or Baa by Moody's.
Mortgage Pass-Throughs	Residential mortgage securities pooled together and marketed by governmental agency issuers such as GNMA, FNMA, FHLMC. (Does not include private issues, which should be included with CMOs, and pooled commercial real estate mortgages, which should be included with other asset-backed bonds.)
Municipal Obligations	State, county, municipality, or public authority issues.
NR/High Yield	Non-Rated (NR rated) issues and issues rated BB or lower by Standard & Poor's and Ba or lower by Moody's.

Texas Water Development Board: Review of Investments

Other Asset-Backed Bonds	Securities backed by pools of assets such as credit card loans, commercial real estate loans, and auto loans.
Other Equity Securities	Preferred stocks, foreign stocks, and non-publicly traded stocks.
Other Money Market Funds and Pools	Money funds and pools with a constant \$1.00 per share net asset value objective.
Private Equity	Includes venture capital, hedge funds, leveraged buyout, mezzanine, and strategically traded securities held directly or through investment vehicles such as limited partnerships.
Real Estate	Includes real estate held for investment directly or through investment vehicles such as limited partnerships.
Repurchase Agreements	Short-term investments secured by marketable securities.
Short-Term Investments	Includes all debt investments with a maturity (as of purchase date) of less than one year and all cash and bank deposits.
TexPool Investments	Investments in TexPool. Includes other Texas pool investments with other money market funds.
U.S. Common Stocks	Includes only publicly traded stocks.
U.S. Government Agency Securities	Securities issued by U.S. Government-sponsored agencies or corporations such as FNMA, FHLMC, or FHLB that do not have full faith and credit guarantees from the U.S.
U.S. Government	Includes Treasuries and any other investment with an affirmative full faith and credit guarantee of the U.S. Government.